

COMMITTEE ON LEGISLATIVE RESEARCH  
 OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2494-01  
Bill No.: HB 1618  
Subject: Elderly, State Tax Commission, Taxation and Revenue - General, Taxation and Revenue - Property  
Type: #Corrected  
Date: April 2, 2002  
 #Corrected for assumptions as to inflation factors.

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**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
#General Revenue	(\$273,682 to Unknown)	(\$171,413 to Unknown)	(\$175,717 to Unknown)
<b>#Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$273,682 to Unknown)</b>	<b>(\$171,413 to Unknown)</b>	<b>(\$175,717 to Unknown)</b>

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>#Local Government</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 7 pages.

**FISCAL ANALYSIS**

### ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning**, assume this proposal would have no fiscal impact on their organization.

Officials from the **State Tax Commission** assume their organization would be compelled to publish rules and establish guidelines on caps in assessed valuation and would have to provide staffing to insure compliance with the proposed legislative changes.

The State Tax Commission estimated costs for this proposal at \$13,955 for FY2003, \$15,089 for FY2004, and \$15,441 for FY 2005.

Officials from the **Department of Revenue** (DOR) assume this legislation creates a homestead exemption for the primary residence of certain persons over sixty-five and protects the Blind Pension Fund from loss of income. It also creates a tax credit for persons eligible for the homestead exemption equal to the amount they paid the Blind Pension Fund.

### Administrative Impact to DOR

For purposes of this fiscal note, the Department assumes that the amount paid to the Blind Pension Fund will be included in the taxpayer's property tax receipt. The department anticipates a significant amount of tax credits and will place a line on the income tax return (MO-1040). Personal Tax will need 8 Tax Season Temporary employees to handle the pre-edit, verification and key-entry for the credit, one Tax Processing Technician to process errors (one for every 30,000 errors) and one Tax Processing Technician to process and respond to the additional correspondence (one for every 3,000 pieces) generated by this legislation. Customer Assistance anticipates additional phone calls on the income tax hotlines and will need one Tax Collection Technician to handle those calls (one for every 24,000 calls). Any additional FTE will be requested during the normal budget process.

This legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,730 hours, a cost of \$57,713. Modifications to tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$11,000 is requested for implementation costs.

ASSUMPTION (continued)

The Department of Revenue's estimated costs including employee salaries, benefits, furniture, equipment, floor space, supplies, computer programming, and data center costs to implement this proposal were \$259,727 for FY2003, \$156,3624 for FY2004, and \$160,276 for FY 2005.

**#Oversight** notes the following related to potential tax revenue losses from this proposal:

An increase in taxes on residential property of 11% per 2-year cycle of reassessment, an inflation rate of 3.5%, 70% of residential property is owner occupied, and 20.5% of residential property owners are over 64, and 36% have income less than \$25,000 individual/\$50,000 joint.

#Total property tax paid in 2000	\$	3,922,378,000
Percent residential		x .44
Residential Property Tax paid in 2000	\$	1,725,846,000
Percentage of population 64+		x .205
Elderly residential property tax	\$	353,798,000
Percentage of owner-occupied		x .70
Owner-occupied elderly residential tax	\$	247,659,000
Percentage low-income		x .36
<b>Low-income owner-occupied elderly tax</b>	<b>\$</b>	<b>89,157,000</b>

#A. Homestead exemption

This proposal would create a homestead exemption for the primary residence of persons over 65 with income under \$25,000 per year single/\$50,000 per year joint. No increase in the assessed valuation of such property would be permitted unless the property was improved, added to, or sold.

**#Oversight** assumes it is not possible to estimate the magnitude of tax losses to political subdivisions. Actual tax collections for any individual political subdivision would be subject to overall changes in total assessed valuation, and to the effects of other statutory revenue restraints. The effects of the other revenue restraints would vary from subdivision to subdivision. Reducing the increase in assessed valuation on individual parcels would in turn reduce the tax rate rollback required, primarily shifting this tax burden to other taxpayers. Oversight assumes that losses to political subdivisions from this provision, as compared to current law would be expected to exceed \$100,000 per year.

ASSUMPTION (continued)

#B. Inflation factor limit.

This proposal would limit the inflation factor in tax levy rates to the percentage of change in Missouri personal income for the second prior year. The current limit is the lower of the consumer price index or five percent. Oversight assumes the effect to political subdivisions of changing the inflation factor limit would be based on the following:

FY 2003

Consumer price index	3.50%
Percentage change in personal income for 2001	4.18%
Additional increase allowed	0.68%

FY 2004

Consumer price index	3.50%
Percentage change in personal income for 2002	2.90%
Reduction in increase allowed	0.60%

FY 2005

Consumer price index	3.50%
Percentage change in personal income for 2003	4.30%
Additional increase allowed	0.80%

**#Oversight** assumes it is not possible to estimate the magnitude of tax losses to political subdivisions. Actual tax collections for any individual political subdivision would be subject to overall changes in total assessed valuation, and to the effects of other statutory revenue restraints. The effects of the other revenue restraints would vary from subdivision to subdivision. Changing the rate of increase in assessed valuation on residential property would be offset by a change in the tax rate rollback required, primarily shifting this tax burden to other taxpayers. Oversight assumes that losses to political subdivisions from this provision, as compared to current law would be expected to exceed \$100,000 per year.

ASSUMPTION (continued)

#C. Rural Homestead

The proposal also limits the agricultural land classified as residential from five acres to three acres adjacent to the residence. Oversight assumes it is not possible to estimate the effect to political subdivisions of changing the agricultural land exemption since the number of agricultural homesteads and the relative value of agricultural and residential land is unknown. However, since residential property is assessed at 19% of its appraised value and agricultural property is assessed at 12% of its appraised value, reducing the acreage classified as residential would result in an unknown reduction of total assessed valuation for this property type.

Oversight also assumes there would be unknown but significant costs to county assessors, clerks, and collectors to implement the requirements of this proposal.

**Oversight** assumes the tax credit for eligible taxpayers would be equal to approximately one-half of one percent of the total tax loss to political subdivisions.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>GENERAL REVENUE</b>			
<u>Cost</u> - State Tax Commission (0.5 FTE)	(\$13,955)	(\$15,089)	(\$15,441)
<u>Cost</u> - Department of Revenue (7 FTE)	(\$259,727)	(\$156,324)	(\$160,276)
<u>#Cost</u> -tax credits	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$273,682 to Unknown)</u></b>	<b><u>(\$171,413 to Unknown)</u></b>	<b><u>(\$175,717 to Unknown)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>POLITICAL SUBDIVISIONS</b>			
<u>Loss -</u>			
Elderly Homestead	(Unknown)	(Unknown)	(Unknown)
Rural Homestead	(Unknown)	(Unknown)	(Unknown)
Inflation Factor	(Unknown)	(Unknown)	(Unknown)
<u>Cost - Counties</u>			
Tax Administration expenses	(Unknown)	(Unknown)	(Unknown)
<b>NET EFFECT ON POLITICAL SUBDIVISIONS</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

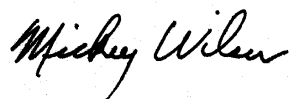
DESCRIPTION

This proposal would limit the inflation factor in tax levy rates to the percentage of change in Missouri personal income for the second prior year, create a homestead exemption for the primary residence of persons over 65 with income under \$25,000 per year single/\$50,000 per year joint. The proposal would prohibit any increase in valuation of such residences after the owner becomes 65. The proposal protects the Blind Pension Fund from loss of income by exempting Blind Pension Fund taxes from the assessed valuation limits, and provides eligible taxpayers a credit against state income tax for the amount of Blind Pension Fund tax paid. The proposal also limits the agricultural land classified as residential to three acres adjacent to the residence.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. This proposal would affect total state revenue.

SOURCES OF INFORMATION

State Tax Commission  
Department of Revenue  
Office of Administration  
Division of Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Acting Director  
April 2, 2002